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UNDP FINANCIAL REGULATIONS AND RULES

SUMMARY

In the present report, the Administrator provides information to the Executive Board about his strategy for a comprehensive revision to the UNDP Financial Regulations and Rules (UNDP/FIN.REG.& RULES/Rev.1 and Rev.2), which is expected to be presented to the Executive Board in 1999. In addition, the Administrator seeks the approval of the Executive Board for interim changes to financial regulations on the biennial support budget, cost-sharing, and procurement.

A recommendation for Executive Board action may be found in chapter IV.

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I. INTRODUCTION

1. In the present report, the Administrator provides information to the Executive Board about his strategy for a comprehensive revision to the UNDP Financial Regulations and Rules (UNDP/FIN REG & RULES/Rev.1 and Rev.2), which is expected to be presented to the Executive Board in 1999. In addition, the Administrator seeks the approval of the Executive Board for interim changes to financial regulations on the biennial support budget, cost-sharing, and procurement. A recommendation for Executive Board action is contained in chapter IV.

II. STRATEGY FOR A COMPREHENSIVE REVISION

2. At its third regular session 1997, the Administrator reported to the Executive Board in document DP/1997/24 that revised Financial Regulations and Rules would be presented in 1998, as a result of earlier actions by the Executive Board with respect to the successor programming arrangements for UNDP and on the harmonization of the biennial support budget, and to make other necessary adjustments. During the preparatory work, however, it was recognized that only a few areas of the Financial Regulations and Rules would benefit from immediate updating. Other Financial Regulations and Rules required in-depth revision to reflect the new structure of authority and accountability over financial management arising from UNDP 2001 change process; the significant growth of other resources (non-core), as discussed at the first regular session 1998; the implementation of successor programming arrangements; the results of the financial risk assessment being undertaken by UNDP; and the impact of the reform proposals of the Secretary-General being implemented by UNDP. Finally, the funds administered by UNDP as well as the United Nations Office for Project Services (UNOPS) currently rely on the UNDP Financial Regulations and Rules, and they have yet to be brought into the discussion. It is now estimated that the work to complete the comprehensive revision will continue well into 1999.

3. The strategy comprises a sweeping restructuring of the UNDP Financial Regulations and Rules in order to align them with the manner in which UNDP receives, allocates and spends both its regular and other resources, for programme activities, for programme support, for management and administration, and for support to operational activities of the United Nations. With the restructuring of UNDP under UNDP 2001, responsibility and accountability for the mobilization of resources rests primarily with the Bureau for Resources and External Affairs. The responsibility and accountability for the allocation of resources rests with the newly established Bureau for Planning and Resource Management. The responsibility and accountability for expenditure rests with the Bureau for Financial and Administrative Services. By aligning the structure of the Financial Regulations and Rules with this operational and managerial accountability structure, the logic and maintenance of the document will be facilitated. The Bureau for Financial and Administrative Services, through its Policy and Control Unit, is responsible for this process.

4. Annex I provides the basic structure of the proposed revision to the UNDP Financial Regulations and Rules. The Administrator expects that most of the changes will result from the introduction of new definitions and from

renumbering as sections are moved to accommodate the new structure. The most significant effort will be at the level of Financial Rules, which reflect the imperatives of the Administrator, under the overall policy directions established by the Executive Board in the Financial Regulations.

5. In accordance with Financial Regulation 1.2, the Administrator will present the comprehensive revision of the Financial Regulations for the approval of the Executive Board. The Administrator will obtain the views of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) on all proposed revisions of Financial Regulations. Once the Executive Board approves the Financial Regulations, the Administrator will be in position to issue revised Financial Rules, pursuant to Financial Regulation 14.1 (a), circulating them to the members of the Executive Board for information at least 30 days before they become effective.

6. UNDP has been very active in the harmonization efforts emanating from the reform initiative of the Secretary-General. It is expected that under the aegis of common services, there will be a need for many more changes, and this will also have an impact on how UNDP progresses in its revision of the Financial Regulations and Rules. UNDP has proposed to the United Nations Executive Coordinator for Common Services that the harmonization of the Financial Regulations and Rules be an item for action by all the relevant organizations.

III. PROPOSED REVISIONS FOR THE PRESENT SESSION

7. Annex II contains the proposed changes to those Financial Regulations for which the Administrator is seeking the approval of the Executive Board at the current session. These proposals have been made in consultation with the United Nations Office of Legal Affairs. A copy of the present report has also been submitted to ACABQ for its consideration and comments.

Harmonized biennial support budget

8. In decision 97/6, the Executive Board approved the harmonized presentation of the biennial support budget for UNDP and other funds and programmes. Consequently, the Administrator is proposing revisions to update the definition of categories of resources and the related accounts, and other operational matters. The source of changes to definitions is annex I of document DP/1997/2, which provided the basis for decision 97/6. In accordance with paragraph 3 of document DP/1997/2, the new terminology was provided to the Consultative Committee on Administrative Questions in 1997 prior to finalization of the proposed Financial Regulations in the present document. As noted above, the proposed changes to the Financial Regulations may be found in section A of annex II of the present document.

Cost-sharing contributions from non-governmental sources

9. In its decision 96/39, the Executive Board approved a revision to Financial Regulation 2.2 C (iii), expanding the definition of "contribution" to include in cash or in-kind assistance provided by a non-governmental source. During the current review of Financial Regulations, it was noted that the Administrator did

not make the corresponding revision to the definition covering contributions for cost-sharing. This omission is being addressed presently. The proposed change may be found in section B of annex II of the present document.

Procurement functions

10. UNDP has participated extensively in the common services initiative included in the reform proposals of the Secretary-General. One major area of focus is procurement, for which a working group of the United Nations Secretariat and the funds and programmes has been developing a harmonized set of regulations and rules. At this stage, the Administrator proposes to replace the current Financial Regulation 14.5 with two new Regulations developed under this collaborative effort. The additional Regulation would raise the basic, general principles for procurement from the level of rule (currently Financial Rule 114.18) to the appropriate level of regulation, consistent with the General Assembly resolutions cited in the current Regulation 14.5. The proposed changes may be found in section C of annex II of the present document.

IV. EXECUTIVE BOARD ACTION

11. The Executive Board may wish to:

1. Note the proposed revised structure for the UNDP Financial Regulations and Rules contained in annex I of document DP/1998/32;

2. Approve the proposed revisions to the current version of the UNDP Financial Regulations and Rules (UNDP/FIN REG & RULES/Rev.1 and Rev.2) contained in annex II, sections A, B and C of document DP/1998/32.

Annex I

PROPOSED REVISED STRUCTURE FOR UNDP FINANCIAL REGULATIONS AND RULES

Chapter A. Applicability

This chapter will remain substantially the same as the current chapter, covering the broad governance of UNDP Financial Regulations and Rules, manner of amendments, the effective date, and the relationship to the United Nations Financial Regulations and Rules.

Chapter B. Definitions

This chapter will require extensive revision to incorporate the new terminology that has evolved in all areas of UNDP activities, including resource mobilization, and successor programming arrangements, with related support costs.

Chapter C. Accountability

This chapter will include the Regulation in Article III as well as the relevant Regulations on internal control from Article XIV and those covering external audit from Article XVI. It will provide comprehensive coverage of accountability, control and oversight.

Chapter D. Resources

This chapter will include Articles addressing all aspects relating to pledged and otherwise mobilized contributions to both regular and other resources, as well as planning periods for the use of such resources.

Chapter E. Allocation of Resources

This chapter will include Articles addressing the manner of allocation of resources both for programme activities and for the biennial support budget. The chapter will cover activities up to the allocation of targets for resource assignment from the core (TRAC) or other resources, and the approval of the biennial support budget appropriations.

Chapter F. Utilization of Resources

This chapter will address the manner in which UNDP utilizes its resources, against both programme allocations and biennial support budget allotments. It will address project/programme approvals; execution modalities and related support costs and cost-recovery aspects; expenditure control; and procurement.

Chapter G. Administration of Resources

This chapter will address financial controls, all matters relating to the custody and management of funds, including investments, the creation of financial records and reports, and asset management.

Annex II

PROPOSED CHANGES TO UNDP FINANCIAL REGULATIONS

Note: Proposed deletions are in [brackets], and proposed additions are underlined. Where new Regulations are inserted, successive Regulations within the same Article will consequently be renumbered.

A. Changes with respect to budget terminology

1. The term "biennial budget" is replaced by "biennial support budget" throughout the text of the Financial Regulations and Rules. The affected Regulations include: 2.2 A (iii); 2.2 A (v); 2.2 B (i); 2.2 E (ii); 2.2 F (iii); 4.10; 4.12; 4.17 (c); 6.5; 7.3; 9.1-9.8; 11.1; 11.2; 14.2 and 16.1 (d).

2. In addition, the following changes in definitions in Regulation 2.2 will be made to conform to the terminology in Executive Board decision 97/6 on the harmonization of presentation of budgets:

(a) Regulation 2.2 A (iv): "appropriation line" shall mean a subdivision of the appropriations for which a specific amount is shown in the appropriation decision [resolution] and within which the Administrator is authorized to make transfers without prior approval; and

(b) Regulation 2.2 B (i): "biennial support budget" shall mean the budget [to] covering the costs of UNDP related to programme support, management and administration, and support to operational activities of the United Nations [programme support and administrative services costs of UNDP].

(c) Regulation 2.2 C (iii): "contribution" shall mean cash or in-kind assistance provided by a Government, by a governmental or intergovernmental institution or agency not part of the United Nations system, or by non-governmental sources, including civil society organizations and entities from the private sector, as well as from individuals. Contributions are used to cover programme costs as well as programme support, management and administration, and support to operational activities of the United Nations, [and administrative services,] including costs associated with the administration of contributions received for special purposes;

(d) Regulation 2.2 F (iii): "funds administered by UNDP" shall include funds in the UNDP Accounts [and funds of trust funds established by the Executive Board or the Administrator, as well as funds of Programmes, Funds, other entities and trust funds established by the General Assembly or the Secretary-General and entrusted to UNDP for administration, i.e., to the Executive Board for legislative guidance or to the Administrator for executive direction].

(e) Regulation 2.2 L (i): "liquidity" shall mean the sum of cash, irrevocable letters credit, and investments in a UNDP Account.

(f) Regulation 2.2 M (i): "management and administration" shall mean the activities of UNDP organizational units whose primary functions are the maintenance of the identity, direction and well-being of UNDP. This typically include units that carry out the functions of executive direction, evaluation, external relations, information, planning and resource management, finance and administration, and audit.

(g) Regulation 2.2 O (ii) "other resources" shall mean the resources of UNDP received for a specific programme purpose (other resources relating to programmes) or for the provision of specific services to third parties (other resources relating to reimbursements), thereby excluding regular resources and resources received by funds entrusted to the Administrator.

(h) Regulation 2.2 O (iii) "other resources relating to programme" shall mean contributions and related income, other than regular resources defined in Regulation 2.2 R (i), and other than resources received by Funds that are administered by UNDP, which are received for a specific programme purpose that is consistent with the aims and activities UNDP.

(i) Regulation 2.2 O (iv) "other resources relating to reimbursements" shall mean resources of UNDP that are received to cover the cost of providing services not relating to Programmes.

(j) Regulation 2.2 P (iv): "programmes", within the context of the form of presentation of the biennial support budget, shall mean the direct inputs needed to achieve the objectives of a specific project or programme for development cooperation. This typically includes experts, support personnel, supplies and equipment, subcontracts, cash assistance and individual or group training [grouping of costs associated with an activity of a programme support and administrative services nature];

(k) Regulation 2.2 P (v): "programme activities" shall mean activities directly associated with the planning, programming and implementation of UNDP assistance through country, regional, interregional and global projects and shall be distinguished from activities associated with the provision of [a] programme support, management and administration, and support to the operational activities of the United Nations under the biennial support budget [administrative services nature];

(l) Regulation 2.2 P (vi): "programme support [and administrative services]" shall mean [include those] activities that are undertaken by UNDP for the development, formulation, delivery and evaluation of the organization's programmes. This typically includes the backstopping of programmes either on a technical, thematic, geographic, logistical or administrative basis to provide management, technical, administrative, financial and logistical support to its programme activities];

(m) Regulation 2.2 R (i) "regular resources" shall mean contributions and related income that are co-mingled and untied.

(n) Regulation 2.2 U (i): "UNDP Accounts" shall mean the Accounts established for the purposes of accounting for the use of all resources

entrusted to the Administrator and activities thereby financed, [all income to UNDP, which excludes funds of trust funds established by the Executive Board or the Administrator and funds of Programmes, Funds, other entities and trust funds established by the General Assembly or the Secretary-General and entrusted to UNDP for administration, and all expenditures made by or on behalf of UNDP against that income] and shall include: a Regular Resources Account, which shall include all regular resources of UNDP, activities thereby financed, and related income; an Other Resources Account, which shall include all other resources of UNDP, activities thereby financed, and related income; and all resources received by Funds entrusted to the Administrator, activities thereby financed, and related income;

(o) Regulation 2.2 U (ii): "UNDP assistance to a project" shall mean the financing of [contribution to] a project [which is funded] from [the] UNDP Regular Resources or Other Resources Accounts;

(p) Regulation 2.2 U (iii): "UNDP funds" shall [include all sources of] mean income [which are] credited to [the] UNDP Regular Resources or Other Resources Accounts and therefore excludes income credited to the UNDP Funds Account;

3. The following proposed changes to operational Regulations arise out of Executive Board decision 97/6 on the harmonization of presentation of budgets:

(a) Regulation 4.12: Where the purpose of the contribution is the general support of UNDP and no limitations are imposed by the contributor as to its use, the monies or in-kind provisions received shall be credited to the UNDP Regular Resources Account, as defined in Regulation 2.2 U (i). Contributions proposed for specific purposes shall be treated under the provisions for cost-sharing of Article IV, under the provisions for trust funds of Article V, or [as extrabudgetary income to be allocated by UNDP] under the provisions for biennial support budget of Article IX, as appropriate, and shall be credited to the UNDP Other Resources Account.

(b) Regulation 4.18: Miscellaneous income shall be credited to the relevant UNDP Account, as defined in Regulation 2.2 U (i) [, or to such other funds administered by UNDP] to which the income accrued or from which it derived.

(c) Regulation 9.1 1/: The proposed biennial support budget shall cover programme support, management and administration, and support to operational activities of the United Nations [and administrative services]. It shall be prepared by the Administrator and shall be related to the plan submitted for the current planning period or, should the biennium span more than one planning period, the current and the following period.

(d) Regulation 9.7 1/: Consistent with Regulation 9.1, the proposed biennial support budget shall be in the form approved by the Executive Board [divided into programmes and programme components], and shall be accompanied by such information annexes and explanatory statements as may be requested by the Executive Board or as the Administrator may deem necessary and useful.

(e) Regulation 9.9: The Administrator, if preparing [shall prepare] supplementary proposals to amend the biennial support budget, shall do so in a form consistent with the approved biennial support budget and shall submit such proposals to the Executive Board. They shall also be submitted to the Advisory Committee, which is requested to review them and report thereon to the Executive Board.

(f) Regulation 10.4: The final allocation for UNDP's assistance to a project made under the provisions of Regulation 10.3 above shall remain available for the period of time required to discharge any outstanding legal obligation of the project. When all legal obligations against the final allocation have been discharged, any balance shall revert to the relevant UNDP Account and shall be classified as miscellaneous income.

(g) Regulation 11.3: Appropriations shall remain available for 12 months following the end of the biennium to which they relate to the extent that they are required to discharge any outstanding legal obligation of the biennium. The balance of the appropriations shall revert to the relevant [UNDP] Account.

(h) Regulation 11.4: At the end of the 12-month period provided in Regulation 11.3 above, the then remaining balance of any appropriations retained will revert to the relevant [UNDP] Account. Any unliquidated obligations of the biennium in question shall at that time be cancelled or, where the obligation remains a valid charge, transferred as an obligation against current appropriations.

(i) Regulation 12.1: There shall be established [a] three [UNDP] Accounts - a Regular Resources Account, an Other Resources Account, and a Funds Account - to which all of the income to UNDP derived from all the sources [specified in Article IV and receivable in cash] shall be credited and against which all expenditures on behalf of UNDP shall be charged [,except for income and expenditures in respect of Funds, Programmes, other accounting entities and trust funds administered by UNDP]. Separate accounts shall be maintained for all reserves established within the UNDP Accounts.

(j) Regulation 13.4: The Administrator and the executing agencies shall endeavour, consistent with the need for efficiency and economy of operations, to make the fullest possible use of all available currencies in the UNDP Accounts.

(k) Regulation 16.1: The Administrator shall submit accounts biennially in respect of the UNDP Accounts, [and in respect of all other funds administered by UNDP] showing:

...

(l) Regulation 12.2: Within the UNDP Regular Resources Account, the following reserves shall be established at levels set by the Executive Board:

...

(b) A fully funded Reserve for [Construction Loans to Governments] Field Accommodations, for housing for internationally recruited, United Nations

[UNDP-financed] field personnel and, exceptionally, for office accommodation. [The terms and conditions under which the Administrator may agree to such loans shall be established by the Executive Board.] The Administrator shall report annually to the Executive Board on the status of [such loans] the Reserve;

(c) Such other reserves as may be approved by the Board.

4. [Regulation 12.3 1/: Separate accounts shall be maintained for all reserves within the UNDP Account and for each Fund, Programme, other accounting entity and trust fund administered by UNDP.]

5. Regulation 12.[4] 3: Working capital shall be provided from the cash resources of the UNDP Accounts.

B. Changes with respect to cost-sharing contributions from non-governmental sources

6. Regulation 2.2 C (vii): "cost-sharing" shall mean an arrangement by which costs of projects that are normally charged to regular resources programme activities [an IPF] and the reimbursement of the related agency support costs are covered in full or in part by a contribution from the recipient Government or Governments, one or more Governments other than the recipient Government or Governments, or an organization of Governments, or organizations of the United Nations system, or from intergovernmental institutions, or agencies not part of the United Nations system, or from non-governmental sources. ...

C. Changes with respect to procurement

7. The current text of Regulation 14.5 on the procurement and management of property is to be deleted in its entirety and replaced by the following:

The Administrator is responsible and accountable for carrying out the procurement functions of UNDP and for managing its property effectively and efficiently in furtherance of the mandate and activities of UNDP.

(a) The procurement functions of UNDP include all actions necessary for the acquisition, by purchase or lease, of goods, real property, and services, including construction;

(b) The management of property includes all actions necessary for receipt, maintenance and disposal of the property of UNDP;

(c) The Administrator may delegate authority, as appropriate, for such procurement functions and management of property.

8. Regulation 14.6: The following general principles shall be given due consideration in carrying out the procurement functions of UNDP:

(a) Best value for money, considering all relevant factors, including costs and benefits to UNDP;

(b) Fairness, integrity and transparency;

(c) Open and effective international competition; and encourage competition on as wide a geographic basis as practicable and suited to market circumstances;

(d) The interest of UNDP.